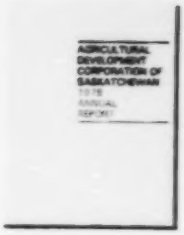


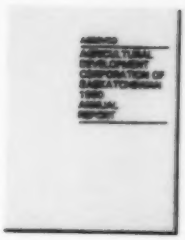
Agdevco

Agricultural Development
Corporation of Saskatchewan

ANNUAL

REPORT

1989



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LETTER OF TRANSMITTAL

Her Honour
The Honourable Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Agricultural Development Corporation of Saskatchewan for the year ended December 31, 1989, including financial statements for the year duly certified by Price Waterhouse and in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be, Madam,

Your obedient servant,

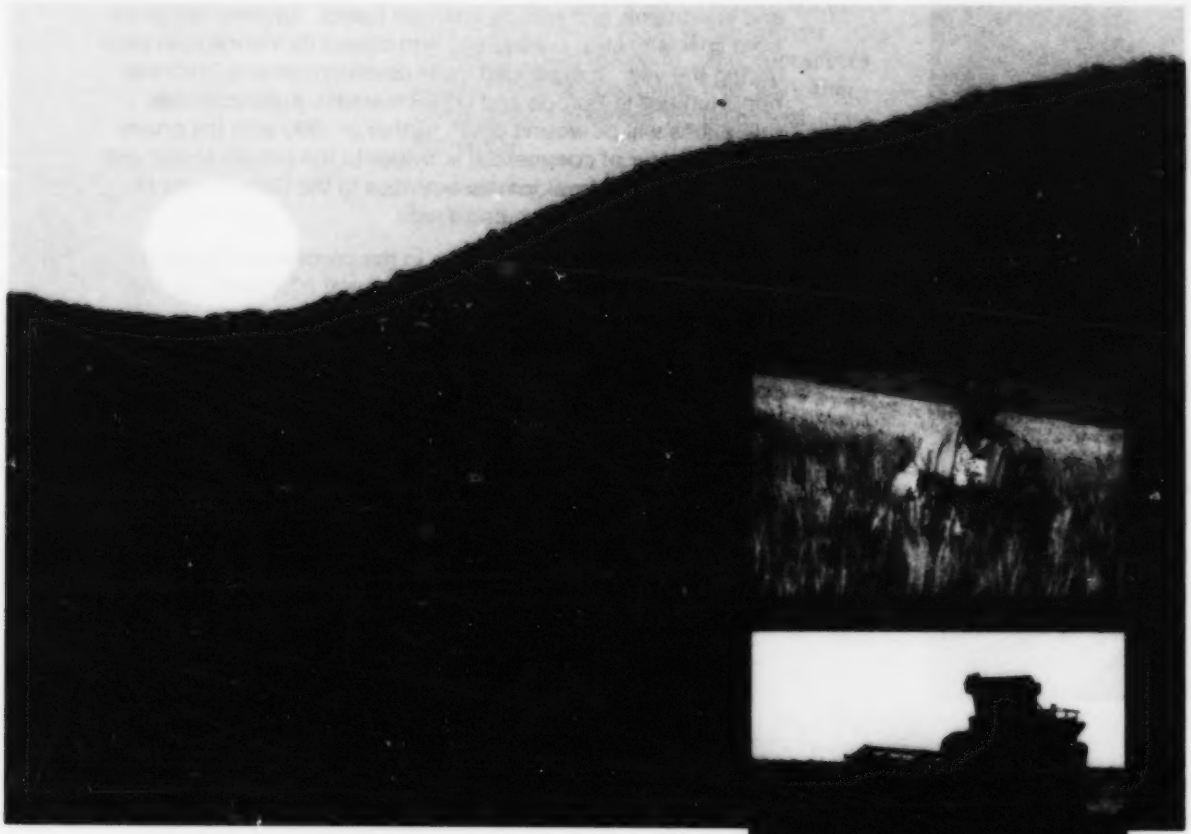
Eric Berntson
Chairman of the Agricultural Development
Corporation of Saskatchewan

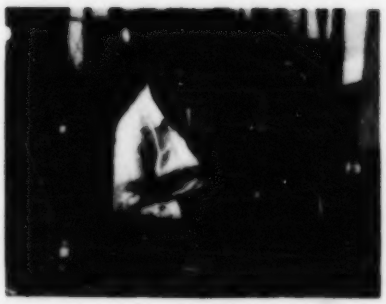
BOARD OF DIRECTORS

Honourable Eric Berntson

BOARD OF DIRECTORS

Honourable Eric Berntson, Chairman, Regina
Jack Drew, Vice Chairman, Regina
Ken Alger, Meadow Lake
Jake Willms, Dundurn
Ian Disbery, Corporate Secretary, Regina





PRESIDENT'S REPORT

Agdevco continued operations connected with international projects and trade during 1989, and made a significant investment in a Saskatchewan livestock company to enhance export opportunities.

The International Division continued to execute major agricultural projects in developing countries. CIDA's policy changes, which were issued during the year, will effectively eliminate Agdevco from future CIDA work. Thus by year end the corporation was reviewing privatization options to enable this business to continue in the future.

Trade operations were adjusted to better meet current markets and conditions, and reduce financial losses. Agdevco withdrew from specialty crop contracting and closed its Vienna operation during the year. It expanded trade development and business opportunities in Europe and USSR markets. Agdevco trade operations will be wound down further in 1990 with the phase out or transfer of commercial activities to the private sector and transfer of trade development activities to the Department of Economic Diversification and Trade.

During 1989 the corporation was in the process of investing $2.5 million into National Pig Development (Canada) Co. Ltd. to assist export orientated expansion plans.

Overall, the corporation's financial loss for the year was approximately $1.7 million, which was less than the previous year.

Bruce Hanson
President

INTERNATIONAL DIVISION

The International Division enjoyed another successful year implementing long term contracts and maintaining the corporation's excellent record for successful execution of CIDA projects.

A major problem arose early in the year with the official policy change by CIDA, which restricts the eligibility of Crown corporations, such as Agdevco, to compete against private companies for CIDA contracts. This policy eliminates Agdevco from gaining future CIDA contracts and, as CIDA is the dominant client for such work, has required reappraisal of Agdevco's future role in this type of work. While current contracts could maintain the corporation's current level of operations into 1991, the corporation's business would be lost thereafter.

At year end, Agdevco was pursuing privatization alternatives to provide a future direction for project operations.

AGDEVCO INTERNATIONAL INC., REGINA, SASKATCHEWAN

This subsidiary continued its participation in the previously established projects in Pakistan. Both projects are behind schedule and the original contract for the first project (the Fourth Drainage Project) has expired. Contract agreements for both projects are being renegotiated for extensions and adjustments to the original terms.

TRADE DIVISION

Rationalization of Trade operations was undertaken in 1989. The corporation phased out the specialty crop sector, as this business is well catered to by private companies.

Livestock sales continued with the first ever sale to the USSR late in 1989. Other trade development activities continued while textile and food business trading was reduced during the year; by year end a decision was made to phase out or transfer these activities in 1990.

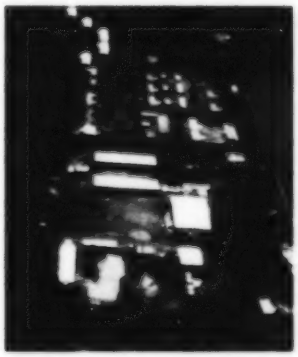
Farm machinery trade development continued with further development of the initiative in Hungary, and the identification of further potential trading opportunities in the USSR — especially in the Kazakhstan region.

AGDEVCO HANDELSGESELLSCHAFT m.b.H., VIENNA, AUSTRIA

The Vienna-based office was closed and the subsidiary company sold during 1989. While the Vienna subsidiary has not made a direct financial contribution to Agdevco finances over the year, it has in the past been the key factor in developing East European business. Agdevco's operation in Vienna has now become superfluous, as Vienna's strategic role in East-West trade has waned with the recent political changes in the region. Saskatchewan-based businesses are now in a better position to continue trade linkages directly from Regina to Eastern European markets.

CORPORATE DIVISION

During 1989, the corporation committed $2.5 million to National Pig Development (Canada) Co. Ltd. and gained a significant equity position in this private company.



The investment is part of the Saskatchewan based specialized pig breeding companies' plan to expand into out-of-province Canadian markets and ultimately into the U.S. market. The equity and loan investment was utilized to build a new enlarged production facility to supply these markets.

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1989

AUDITORS' REPORT

To the Members of the Legislative
Assembly of Saskatchewan

We have examined the consolidated statement of financial position of Agricultural Development Corporation of Saskatchewan as at December 31, 1989 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

Because of a delay in the completion of the accounting records of a joint venture in which the corporation is a participant (as described in Note 12), we are unable to complete our examination with respect to the activities of this joint venture. The joint venture is in the process of completing the preparation of the accounts and having them examined but does not expect to complete this procedure on a timely basis. Accordingly, we were unable to determine whether any adjustments may be necessary to accounts receivable, accounts payable, net income or contingent liabilities.

In our opinion, except for the effect of adjustments, if any, we might have determined necessary had we been able to satisfy ourselves with respect to the activities of the joint venture as described in the preceding paragraph, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1989, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

Regina, Saskatchewan
February 26, 1990

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN

CONSOLIDATED STATEMENT OF FINANICAL POSITION

	December 31	
	1989	1988
Assets		
Current assets		
Cash and short-term deposits	$ 42,011	$ 10,928
Accounts receivable (Note 3)	1,607,830	2,951,205
Inventory	423,719	473,234
Prepaid expenses	8,533	9,305
	2,082,093	3,444,672
Loan receivable (Note 4)	585,273	—
Fixed assets (Note 5)	81,301	104,194
Long-term investment (Note 6)	1,426,341	—
	$ 4,175,008	$ 3,548,866
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	$ 389,180	$ 905,486
Accounts payable - trade	776,977	1,807,672
- other	14,407	16,670
Note payable	—	3,200,000
Customer deposits	12,122	82,948
Current portion of long-term debt	18,227	17,500
Advances - international projects (Note 7)	—	68,339
	1,210,913	6,098,615
Long-term debt, less current portion (Note 8)	581,773	56,875
Obligations under capital leases, less current portion (Note 9)	3,638	10,017
	1,796,324	6,165,507
Province of Saskatchewan's equity		
Equity advances (Note 10)	6,778,814	117,473
Deficit	(4,400,130)	(2,734,114)
	2,378,684	(2,616,641)
	$ 4,175,008	$ 3,548,866

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Year ended December 31	
	1989	**1988**
Revenue		
Product sales	$ 5,295,307	$ 5,685,377
Commissions and fees	3,905,853	4,385,903
Investment income	32,458	29,011
Other income	—	25,877
	9,233,618	10,126,168
Expenses		
Cost of product sales and other direct costs (Note 13)	8,765,151	9,939,596
General and administrative	1,856,663	1,818,904
Interest expense	267,622	275,682
	10,889,436	12,034,182
Loss for the year before the following	(1,655,818)	(1,908,014)
Loss on disposal of subsidiary	(10,198)	—
Loss for the year	(1,666,016)	(1,908,014)
Deficit, beginning of year	(2,734,114)	(826,100)
Deficit, end of year	$ (4,400,130)	$ (2,734,114)

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN

CONSOLIDATED STATEMENT OF CHANGES IN FINANICAL POSITION

	Year ended December 31	
	1989	1988
Cash provided by (used in) operating activites		
Loss for the year	$ (1,666,016)	$ (1,908,014)
Items not affecting cash		
Depreciation	46,881	56,145
Loss on disposal of equipment	—	27,718
Loss on disposal of subsidiary	10,198	—
Changes in non-cash operating items	242,303	(777,475)
	(1,366,634)	(2,601,626)
Cash provided by (used in) investment activities		
Purchase of fixed assets	(36,200)	(9,642)
Increase in long-term investment	(1,426,341)	—
Increase in loan receivable	(600,000)	—
Cost to dispose of subsidiary	(21,523)	—
	(2,084,064)	(9,642)
Cash provided by (used in) financing activities		
Increase in equity advances	6,661,341	—
Proceeds (repayment) of short-term borrowing	(3,200,000)	1,800,000
Proceeds of long-term debt	600,000	—
Repayment of long-term debt	(56,875)	(17,500)
Repayment of obligations under capital leases	(6,379)	(16,919)
	3,998,087	1,765,581
Net cash provided (used) during the year	547,389	(845,687)
Cash position, beginning of year	(894,558)	(48,871)
Cash position, end of year	$ (347,169)	$ (894,558)
Cash position is comprised of the following:		
Cash and short-term deposits	$ 42,011	$ 10,928
Bank indebtedness	(389,180)	(905,485)
	$ (347,169)	$ (894,558)

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1989

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1. **Summary of accounting policies**

This summary of significant accounting policies provides a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles
The consolidated financial statements include the accounts of the corporation's wholly-owned subsidiary, Agdevco International Inc. On September 30, 1989, Agdevco International Inc. sold its wholly owned subsidiary, Agdevco Handelsgesellschaft m.b.H. These consolidated finanical statements include the accounts of Agdevco Handelsgesellschaft m.b.H. for the nine months ended September 30, 1989.

Fixed assets and depreciation
The fixed assets of the corporation are recorded at cost and are depreciated or amortized on a straight-line basis at the following rates per annum.

Office and other equipment	10% and 12 1/2%
Machinery and equipment	20%
Computer hardware - owned and leased	20%
Leasehold improvements - Regina	20%
Leasehold improvements - Vienna	10%
Computer software	33 1/3%

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposition of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the consolidated statement of operations and deficit.

Translation of foreign currencies
Items included in these consolidated finanical statements denominated in foreign currencies have been translated into Canadian currency using the temporal method of foreign currency translation.

i) Monetary items, at the rate prevailing at the year-end date.

ii) Non-monetary items, at the historical exchange rates.

iii) Revenue and expense items, at the average monthly rate as they are incurred for Agdevco Handelsgesellschaft m.b.H.; and at provisional rates approximating current rates, adjusted periodicaly throughout the year for the Agricultural Development Corporation of Saskatchewan and Agdevco International Inc.

iv) Depreciation and amortization expenses, at the same exchange rates as the assets to which they relate.

v) Gains or losses, resulting from these translation adjustments are included in the determination of earnings.

1. cont'd

Inventory
Inventory is valued at the lower of cost and net realizable value.

Revenue generating activities
The corporation enters into the following types of revenue generating activities:

i) The corporation purchases agricultural products and other products from various producers and suppliers, locates buyers for the products and then enters into sale agreements with the buyers. These transactions are recorded as product sales and cost of product sales in the consolidated statement of operations and deficit.

ii) In other transactions, the corporation acts as agent, arranging for direct sales between buyers and producers. For rendering this service, the corporation earns commissions and only the commissions on these transactions are included in the consolidated statement of operations and deficit.

iii) The corporation provides project services under contract to government agencies and commercial clients. These services include agricultural project management, technical assistance, training and procurement. These transactions are included in the consolidated statement of operations and deficit.

iv) Agdevco International Inc. earns management fees for the management of certain projects.

Income recognition
Agdevco International Inc. has a 25% interest in Crescent-Agdevco Joint Venture. In accordance with the Crescent-Agdevco Joint Venture Agreement, the completed contract method is used to account for the income of the joint venture. Consequently, cost and progress payments are capitalized and income is recognized only upon completion of the contract. Agdevco International Inc. accounts for the joint venture on the equity basis.

2. Status of the corporation

Under the authority of an Order in Council, the Saskatchewan Trading Corporation, established in 1974 pursuant to the provisions of The Crown Corporations Act, was continued as the Agricultural Development Corporation of Saskatchewan effective February 1, 1978. The corporation was reconstituted to provide services which facilitate domestic and export trade in Saskatchewan agricultural products and to serve as an agency in contracting for and managing international development projects.

3. Accounts receivable

Accounts receivable as at December 31 are comprised as follows:

	1989	1988
Trade accounts receivable	$ 1,448,198	$ 2,775,866
Other receivables	600,361	339,547
	2,048,559	3,115,413
Less: Allowance for doubtful accounts	440,729	164,208
	$ 1,607,830	$ 2,951,205

4. Loan receivable

The loan receivable from National Pig Development (Canada) Co. Ltd. has a 15 year term. The loan bears interest at a rate of 12.5% per annum with blended quarterly payments of $22,263.66. The interest rate is renegotiable every 5 years. The current portion of this loan receivable ($14,727) is included in other receivables.

5. Fixed assets

	Cost	Accumulated Depreciation	Net 1989	Net 1988
Owned assets				
Office and other equipment	$ 25,753	$ 10,228	$ 15,525	$ 17,007
Machinery and equipment	—	—	—	844
Computer software	107,744	97,768	9,976	20,908
Computer hardware	60,385	23,725	36,660	40,648
	193,882	131,721	62,161	79,407
Leasehold improvements				
Regina	14,000	2,800	11,200	—
Vienna	—	—	—	6,510
Leased assets (Note 9)				
Computer hardware	78,737	70,797	7,940	18,277
	$ 286,619	$ 205,318	$ 81,301	$ 104,194

6. Long-term investment

The corporation has subscribed for 575,000 Class "A" common, voting shares at an aggregate cost of $575,000, and 662,500 Class "B" convertible, retractable, redeemable preferred shares at an aggregate cost of $1,325,000 from National Pig Development (Canada) Co. Ltd. As at December 31, 1989, the corporation has paid $1,426,341.30 to National Pig Development (Canada) Co. Ltd. to purchase these shares. The shares will be issued when the $1,900,000 is fully paid.

7. Advances - international projects

Under the terms of agreements entered into with the Canadian International Development Agency (CIDA) and Saskatchewan Agriculture, the corporation provides personnel to assist in implementing certain international projects sponsored by the agencies.

Under the terms of the agreements, the corporation assumes the responsibility for the procurement of all project inputs of both an operating and a capital nature. Advance funding is normally provided by an agency and the corporation submits project cost reports on a periodic basis. The corporation is fully compensated for the service it provides to the projects including a service fee as an allowance for administrative overhead costs.

8. Long-term debt

	1989	1988
Crown Investments Corporation of Saskatchewan This loan bears interest at the rate of Prime minus 1/4%, repayable in annual payments of $17,500 plus interest. This loan was repaid in full during 1989.	$ —	$ 74,375
Crown Investments Corporation of Saskatchewan This loan bears interest at the rate of 10.06% per annum with blended quarterly payments of $19,478. The interest rate is renegotiable every five years. The loan is due December 1, 2004.	600,000	—
	600,000	74,375
Current portion of long-term debt	18,227	17,500
	$ 581,773	$ 56,875

9. Obligations under capital leases

Future minimum capital lease payments and the balance of the obligations due in each of the next four years are as follows:

	Year ended December 31	
	1989	1988
1989	$ —	$ 19,474
1990	6,534	6,534
1991	3,837	3,837
1992	700	700
Total minimum lease payments	11,071	30,545
Less: amount representing interest at 12%-12.75% (1988 - 12%-15.5%)	1,849	3,858
Present value of obligations	9,222	26,687
Less: amount due in the next year included in accounts payable - other	5,584	16,670
Long-term obligations under capital leases	$ 3,638	$ 10,017

10. Equity advances

The advances received from the Crown Investments Corporation of Saskatchewan are intended as a long-term equity capitalization for the corporation. The advances are non-interest bearing with no fixed terms of repayment.

11. Related party transactions

Included in these consolidated financial statements are various revenue and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies, and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms. Other accounts due to and from related parties and the terms of settlement are described separately in these consolidated financial statements and the notes thereto.

12. Crescent/Agdevco Joint Venture

Agdevco International Inc., a subsidiary of the Agricultural Development Corporation of Saskatchewan, is a participant in a joint venture known as the Crescent/Agdevco Joint Venture. The joint venture is involved in two agricultural drainage projects in Pakistan which are funded by the World Development Bank and the Asian Development Bank. Because of contract extensions and renegotiations of the original project agreements, these agreements are still being finalized. The final resolution of these agreements may significantly affect the operating results of the joint venture. Due to these continuing negotiations, the accounts of the joint venture have not yet been finalized and are not expected to be completed on a timely basis.

Under the terms of the Crescent/Agdevco Joint Venture Agreement, the Agricultural Development Corporation of Saskatchewan and its subsidiary Agdevco International Inc. have posted performance guarantees in the amounts of $341,000 (U.S.) and $150,000 (U.S.) respectively. The joint venture partner has also provided guarantees totalling approximately $1,473,000 (U.S.). The original contract completion date has expired on one of the joint venture projects and the project is not yet completed. However, as mentioned in the previous paragraph, the contracts are currently under renegotiation.

Until the accounts of the joint venture are completed, Agdevco is unable to verify its receivable from or payable to the joint venture or any other potential contingent liability resulting from the operations of the joint venture.

13. Unrealized loss

During 1988, cost of product sales and other direct costs include an unrealized loss on commodity transactions in the amount of $534,366 which management considers to be unusual in nature. This loss was realized in 1989.

14. Contingencies

The corporation has guaranteed the repayment of a debt by a customer to Saskatchewan Economic Development Corporation to a maximum of $130,000 if the customer defaults. Should this occur, the corportion would have a claim against the assets of the customer.

15. Subsequent events

Subsequent to the year end of the corporation, the operations of the Trade Division are being wound down and the operations of the International Division have been made available for sale. The financial effects of these events are undeterminable at this time.